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Argo Investing in Australia

Argo Investments Limited
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Dear Shareholder,

The Directors of Argo Investments Limited ('the Company"), a leading Australian listed investment company with total assets of $3.1 billion, report the Company's result for the year ended 30 June, 2009, a summary of which follows:-

*	Operating profit after tax and before net realised losses and unrealised impairment revaluation charge on long-term investments	$163.4 m
*	Operating earnings per share based on above	28.2 cents
*	AIFRS accounting loss including net realised losses and unrealised impairment revaluation charge on long-term investments	($64.4 m)
*	Final fully franked dividend per share including 2 cents LIC capital gain	13.0 cents
*	Fully franked dividends per share for the year	27.0 cents
*	Management expense ratio (MER)	0.19%
*	Net tangible asset backing per share at balance date	$5.32

Financial Result

Operating profit after tax and before net realised gains or losses and unrealised impairment revaluation charge on long-term investments fell 10.4% to $163.4 million, compared with $182.3 million in the previous year. The Company's operating profit relies upon the income received from its diverse Australian investment portfolio and is influenced by the profitability and dividend paying capacity of the investments held. Due to the Company's long-term investment philosophy, the Directors believe that this is the best measure of profitability.

Income from dividends fell in the second half of the year as some companies reduced or cancelled their dividends due to either lower earnings or to preserve cash to see them through the extremely difficult credit environment and the challenging economic situation. Interest income also fell significantly due to lower interest rates earned on our cash during the year and through having reduced cash as we selectively supported a number of the multitude of capital raisings by companies in our extensive investment portfolio.

The still very competitive management expense ratio (MER) for the year of 0.19% of average assets at market value was adversely affected by the decline in the value of the investment portfolio.

Operating earnings per share, excluding net realised losses and unrealised impairment revaluation charge on long-term investments, was 28.2 cents, compared with 32.2 cents in the previous year.

The AIFRS accounting result for the year was a loss of $64.4 million. This outcome does not reflect the Company's long-term investment philosophy and includes net losses on the sale of long-term investments after tax of $22.2 million and an unrealised impairment revaluation charge after tax of $205.6 million. The net realised losses on long-term investments have been transferred to Capital Profits Reserve and the unrealised impairment revaluation charge has been transferred to Impairment Revaluation Charge Reserve.

The unrealised impairment revaluation charge has arisen due to the requirement in Accounting Standard AASB 139 to impair equity investments where there has been a significant or prolonged decline in the market value below cost, and the Auditor's quantitative interpretation of that accounting standard.

Despite having a diversified investment portfolio, Argo was not fully insulated from the significant negative impact of the global financial crisis on the Australian and international sharemarkets.

The unrealised impairment revaluation charge has no impact on the Company's underlying profit from operations, nor on the value of our investments or asset backing. Argo's investments are revalued daily to market value, and all movements in market values are fully reflected in the Company's investment returns, balance sheet and the Company's asset backing which is reported to the market at each month end.

Our Auditor has acknowledged that Accounting Standard AASB 139 makes no allowance for long-term investing in equity securities and it is very likely that there will be changes to this accounting standard for the next reporting period.

Dividends

Following the steady fully franked interim dividend of 14 cents per share, the Directors have declared a fully franked final dividend of 13 cents per share (last year 16 cents per share) which includes a 2 cents per share Listed Investment Company (LIC) capital gain dividend (last year 3 cents per share). The LIC component of the dividend will give rise to an attributable part of 2.86 cents per share, which will allow eligible shareholders to claim a portion of the attributable part as a deduction in their 2009/2010 income tax returns. The amount which eligible shareholders may be able to claim as a tax deduction depends on their individual situation. Details will be provided in the dividend statement.

The fully franked final dividend, totalling $76.0 million, will be paid on 4 September, 2009. The shares will trade ex-dividend on 13 August, 2009 and the record date to establish shareholder dividend entitlements is 19 August, 2009.

Total fully franked dividends for the year amount to 27 cents per share, compared with fully franked dividends of 30 cents per share for the previous year and is the same as two years ago. After four consecutive years of strong dividend growth, the Directors prefer to adopt a more cautious approach in the current environment.

Dividend Reinvestment Plan

The Company's Dividend Reinvestment Plan (DRP) will operate for the dividend payable on 4 September, 2009.

The Directors have resolved that the shares will be allotted at a discount of 2.5% from the market price of Argo shares, as defined by the DRP, to eligible shareholders participating in the DRP.

Eligible shareholders, being those shareholders with registered addresses in Australia or New Zealand, who wish to participate in the DRP and who have not already lodged their intention, must do so by 19 August, 2009. Any variation to an existing election must also be lodged by this date.

Net Asset Backing

Reflecting the significant downturn in equity markets over the reporting period, net tangible asset backing per share was $5.32 as at 30 June, 2009 compared with $6.76 as at 30 June, 2008.

As a long-term equity investor, Argo does not intend to dispose of its long-term investment portfolio. However, if estimated tax on unrealised portfolio gains was to be deducted, the net tangible asset backing per share would be $4.95 as at 30 June, 2009 compared with $5.98 as at 30 June, 2008.

Investment Portfolio

The Company's objective is to maximise long-term returns to shareholders through a balance of capital and dividend growth from a diversified Australian investment portfolio.

For the last 10 years, Argo's investment portfolio has produced a compound annual return of 8.8% as measured by the movement in net asset backing per share plus dividends paid. This return is after payment of all administration costs and tax and compares with a return of 7.3% from the S&P ASX All Ordinaries Accumulation Index, which makes no allowance for these items. As a result of the recent significant decline in investment values generally, the total return from the Company's portfolio in the 2009 financial year was negative 16.8%. The S&P ASX All Ordinaries Accumulation Index fell 22.1% over the same period.

Significant investment purchases made by the Company during the year were:-

	$M
Rio Tinto Ltd.	36.5
Wesfarmers Ltd.	15.5
National Australia Bank Ltd.	12.4
Commonwealth Bank of Australia	12.2
Santos Ltd.	10.0
Westpac Banking Corporation	9.6
QBE Insurance Group Ltd.	9.6

A number of investments which were affected by the adverse change in economic conditions were sold during the year. Macquarie Communications Infrastructure Group, MYOB Ltd., Queensland Gas Company Ltd. and St. George Bank Ltd. were taken over.

A list of the Company's principal investments as at 30 June, 2009 is set out below:-

	Market Value $M
BHP Billiton Ltd.	245.4
Westpac Banking Corporation	175.1
Macquarie Group Ltd.	147.7
Rio Tinto Ltd.	124.9
Milton Corporation Ltd.	112.7
National Australia Bank Ltd.	106.8
Telstra Corporation Ltd.	106.1
Wesfarmers Ltd.	104.7
Australian United Investment Company Ltd.	104.0
Woolworths Ltd.	101.2
Commonwealth Bank of Australia	85.7
Australia and New Zealand Banking Group Ltd.	81.5
Origin Energy Ltd.	79.1
QBE Insurance Group Ltd.	61.4
Woodside Petroleum Ltd.	60.8
Santos Ltd.	51.0
Westfield Group	46.3
Orica Ltd.	44.8
Computershare Ltd.	39.7
Diversified United Investment Ltd.	38.6

Outlook

The world economy remains in a deep recession, although there are some early indicators that point to a subdued recovery over the remainder of calendar 2009. Australia has been fortunate to have avoided the worst of the downturn and is expected to resume modest economic growth as we move into calendar 2010, despite further increases in unemployment.

Following the worst two consecutive financial years performance for at least 73 years, the Australian sharemarket has rebounded strongly since the lowpoint reached early in March 2009. This occurred due to some improvement in global credit markets and economic growth resuming in China. It has also happened despite a flood of equity capital raisings from companies seeking to recapitalise their balance sheets.

Despite these early positive signs for the Australian economy and sharemarket, we expect continued downward pressure on company profits and dividends in the period ahead, before a modest improvement in the first half of calendar 2010.

Share Purchase Plan

The Directors are considering offering a Share Purchase Plan (SPP) to eligible shareholders and a decision will be made shortly.

Annual General Meeting

The Annual General Meeting will be held at the Adelaide Convention Centre, North Terrace, Adelaide on Monday 26 October, 2009 at 10.00 a.m.

Information Meetings

For the benefit of shareholders unable to attend the Annual General Meeting in Adelaide, informal meetings will be held in Melbourne on Tuesday 27 October, 2009 at 10.00 a.m. in the offices of PricewaterhouseCoopers, Level 19, 2 Southbank Boulevard, Southbank and in Sydney on Wednesday 28 October, 2009 at 10.00 a.m. in the offices of PricewaterhouseCoopers, Darling Park Cockle Bay, Tower 2, 201 Sussex Street, Sydney.

Yours faithfully,
ARGO INVESTMENTS LIMITED

C.L. Harris
Chairman

R.J. Patterson
Managing Director